

EXHIBIT 12

10/02/07 16:10 FAX 6306200897.

TWC CHI

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October 1, 2007

Sent via Email to: mmeegan@colum.edu

Martha Meegan
619 S. Wabash, Rm. 213
Chicago, IL 60605

Dear Ms. Meegan:

We are writing to invite you an important hearing hosted by the Service Employees International Union (SEIU), which will draw hundreds in attendance. On the heels of a July U.S. Congressional Subcommittee hearing that focused on the Wackenhut Security Corporation (Wackenhut), as well as a series of nationwide hearings, SEIU will hold a hearing on Wackenhut in Chicago to address security concerns, poor business practices and treatment of Wackenhut workers.

Wackenhut, the largest private security contractor for the U.S. government, has been under intense political scrutiny for its poor labor standards. Security guards at federal facilities report that Wackenhut uses a culture of fear to prevent guards from reporting security lapses. In addition, the high turnover rate for Wackenhut guards—which is due to the fact that the company does not provide its employees affordable health insurance and other needed benefits—and the poor labor practices they employ also threaten the security of the locations currently secured by Wackenhut. Recently, Wackenhut has been subject to intense U.S. Congressional scrutiny.

AGENDA

A panel made up of elected officials, including Representative Danny Davis, will hear testimony that highlights concerns and possible solutions over Wackenhut contracting policies. Specifically, Wackenhut security officers at Columbia College-Chicago and the Bank of America buildings are engaged in efforts to improve their standards. In Chicago, there is a high standard in the security industry, and it is in the public interest to ensure quality service. Panelists will include:

- Elected officials
- Community, labor union and issue advocacy organizations
- A former Department of Homeland Security Wackenhut security officer
- A Wackenhut security officer from the Prairie Island Nuclear Plant in Minnesota
- A noted expert on security management
- Wackenhut security officers at Columbia College-Chicago
- Faculty and staff of Columbia College-Chicago

I am writing to invite you to join Representative Davis on this panel. The event is:

Saturday, October 6, 2007
1:00-2:15 p.m.
The University Center (Lake Room)
525 South State Street, Chicago

SERVICE EMPLOYEES
INTERNATIONAL UNION
CTW, CLC

1800 Massachusetts Ave NW
Washington, D.C. 20036

202.730.7000
TDD: 202.730.7481
www.SEIU.org

This is an issue of extreme importance not only for SEIU, but the whole community. Please call Emil Totonchi at 312-233-8736 with any questions.

Sincerely,
SEIU

EXHIBIT 13

EyeOnWackenbut - Featured Stories:

EyeOnWackenbut - Know the facts about Wackenbut

[Home](#)[Security at US Army Bases](#)[Department of Homeland Security](#)[Security at Nuclear Facilities](#)[Transportation Security](#)[Wackenbut Whistleblower Page](#)[Management and Oversight](#)[Wackenbut in the News](#)[Press Releases](#)[EOW](#)[Newsletters](#)[Documents](#)[Room](#)[Links](#)[Contact Us](#)

http://web.archive.org/web/20060515000547/http://www.eyeonwackenbut.com/index.asp?Type=B_BASIC&SEC={49FC4FE0-564F-4BCA-B321-CED61E3E724E}

[For First-Time Visitors](#)

Security has never been more important, so you need to know the facts about your security company. Make sure you're getting the security you pay for.

Featured Stories:**NEWS FLASH: DESPITE MULTIPLE SECURITY ISSUES, U.S. ENERGY DEPT. CHOOSES TO RENEW WACKENHUT'S CONTRACT TO GUARD NEVADA TEST SITE**

Despite numerous security issues at the Nevada Test Site, the Department of Energy has decided to renew its security contract with the site's troubled contractor Wackenbut. The contract for guarding services at the sensitive nuclear site 65 miles northwest of Las Vegas is worth an estimated \$386 million including an initial three-year period, and two one-year option periods, according to a press release issued today by the DOE's National Nuclear Security Administration.

While DOE was deciding the fate of the NTS security contract, a Wackenbut Services, Inc. board member, Troy Wade simultaneously served on a key DOE panel examining the appropriate role for the Nevada Test Site in the DOE's nuclear weapons Stockpile Stewardship program.

At the Nevada Test Site (NTS), according to DOE Inspector General reports (2004-05), Wackenbut:

- "Systematically" violated weapons inventory and handling policies;
- Increased overtime by 39% and "suspended or reduced training and performance testing to ensure that protective force personnel were available for critical duties";
- Excluded or modified prescribed training techniques for vehicle assaults.

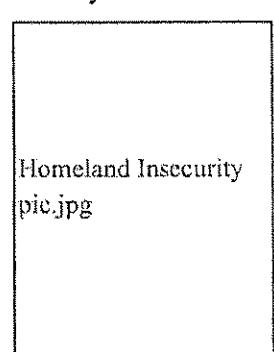
To learn more about this issue:

- Investigate biographies of [Wackenbut Services boardmembers](#)
- Find out about DOE's [Stockpile Stewardship program](#)
- Read our [press release](#)
- Go to our [Nevada Test Site](#) page to review security problems at the facility

NEWS: THE CHRISTIAN SCIENCE MONITOR PICKS UP GAO REPORT-ARMY BASE SECURITY STORY...

Quoted from the [CSM](#)...

Security Problems at U. S. Army Bases...



[Read our report, "Homeland Insecurity: How Wackenbut and an Alaska Native Corporation May be Compromising Security at U.S. Army Bases"](#)

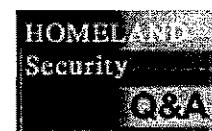
TV Coverage of the DHS Insecurity Story



NBC Nightly News:
Homeland Insecurity?
[Preceded by ad]



AP Exclusive:
Homeland Insecurity?
[Preceded by ad]



Interview: AP Reporter
Larry Margasak
[Preceded by ad]

EXHIBIT 14

03/01/06 12:34 THE WASHINGTON TIMES → 561 691 6727 -

NO 449 P001/001

Tues, Feb. 28, 2006
 The Hill

Holiday Inn the only place we should take a closer look.

The U.S. government's largest supplier of private security officers is a foreign-owned company with a troubled performance record who:

- ✗ Let down their guard at U.S. airports on 9/11.¹
- ✗ Cheated on an anti-terrorism drill at a nuclear site.²
- ✗ "Systematically" violated weapons inventory and handling policies.³

Yet the U.S. government has outsourced security to Wackenhut to protect our nation's most sensitive sites including:

- ✗ U.S. Department of Homeland Security
- ✗ U.S. nuclear weapons sites
- ✗ U.S. Army bases

Our homeland security deserves a closer look.

1. Group 4 Securicor owned Argenbright, the security company who screened two of the four flights on 9/11.
 2. Group 4 Securicor owns Wackenhut. 3. Group 4 Securicor owns Wackenhut.

Presented by the proud security officers and other members of Service Employees International Union (SEIU), working to improve standards in the private security industry.



www.EyeOnWackenhut.com

Fax: 561-691-6727

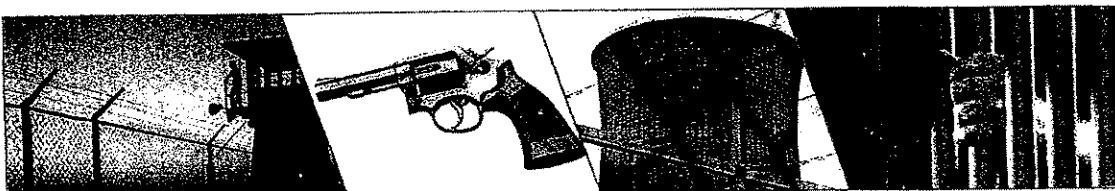
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EXHIBIT 15

UPDATED AND EXPANDED

2006 ALTERNATIVE ANNUAL REPORT



Group 4 Securicor

THE HIGH COST OF THE LOW ROAD



FOCUS ON Group 4 Securicor

Welcome to an updated second 'alternative' annual report on Group 4 Securicor (G4S)

After the first full year of post-merger operations, investors face difficult questions about the company's future. The company's largely positive results in March are clouded by continuing operational challenges and controversies. Recent threats to key contracts in the United States, ongoing problems in UK guarding, together with tension between the company and labour unions internationally, raise a number of questions surrounding its future course:

1. Can the US subsidiary, Wackenhut, continue to grow and improve margins in the face of reported problems in service, preparedness, and billing practices in its core government and nuclear sectors?
2. Will the UK business be affected by reputational damage from its offender monitoring and immigration detention operations?
3. Will the controversies and performance problems affecting the company in multiple countries affect its competitive standing, particularly in regard to high-profile contracts such as the London 2012 Olympics, international bodies, and government agencies around the world?
4. Will the widely reported acquisition-mindedness of group management lead to deals that damage shareholder value, or that distract further from resolving key operational problems?

This report is published by SEIU, the leading US security union, in conjunction with the global property services union, Union Network International (UNI). UNI's members include unions in the security industry in 52 countries. Its focus is on raising standards in the global security industry through effective partnerships between employees and responsible employers.

SEIU has for over two years been raising concerns about poor security practices—including inadequate training, staffing, protocols, and internal controls—on contracts by G4S's US subsidiary, Wackenhut. Recently, Wackenhut lost or is at risk of losing an estimated \$174.5 (£93.3) million in US government contracts following revelations of lax security practices. Among these are nuclear security contracts at Oak Ridge, estimated to be worth \$100 (£53.5) million annually upon award, which are at risk in the face of performance investigations. With the prospect of a potential change in control in congress in the autumn mid-term elections, and with the additional scrutiny that such a change of control is likely to bring to the public sector contracts Wackenhut has grown used to, there are doubts about whether growth can be maintained in that environment.

Such concerns are not confined to the US. In the UK, G4S has seen revenue drop, customer termination rates increase, and embarrassing service problems infect its £36 million offender monitoring operation. In Indonesia, where workers are on strike against Group 4 Securicor's subsidiary PT Securicor, the company has incurred mounting customer reimbursement claims, escalating back-pay liabilities, and the reported losses of some clients.

In the UK, the company recently reached an agreement with the GMB—the main union for security workers there—and GMB members are already reaping the benefits. The question arises therefore why a company that is capable of taking a step towards "treating its employees more fairly" seems unable to reach similar agreements with trade unions elsewhere in the world.

Overall, G4S shareholders can be pleased with a year of positive financial performance by the company. But we believe investors have reason to be concerned about whether the company's operational practices, treatment of employees, and attention to quality are adequately ensuring positive performance for the future.

Philip Jennings

Secretary General, Union Network International

The High Cost of the Low Road

Escalating criminal and terrorist threats around the world have increased the demand for informed, skilled, and responsive security services. Governments, corporations, universities, international institutions, trade unions, and industry associations are taking part in a trend toward higher standards for security systems and personnel. In the United Kingdom, the Private Security Industry Act introduced mandatory licensing of private security guards and established the Security Industry Authority to set standards for guard training and employment. In the United States, the National Association of Security Companies established a strategic objective to "promote higher standards, consistent regulations and ethical conduct for private security businesses" and to this end it is working to improve private security licensing and regulation.¹

Security providers who anticipate the trend toward higher security standards are likely to gain a competitive edge. If they offer trained personnel equipped with state-of-the-art equipment, supported by up-to-date technology, and managed by expert supervisors, they could take market share from low-road companies that prioritise cost over quality. By implementing professional instruction programmes that teach guards and managers to implement the industry's best practices and by developing systems for ensuring that all employees are accountable to the highest standards of customer service and ethical behaviour, security companies have an excellent opportunity to improve their performance, foster customer loyalty, and create the goodwill to earn a premium for their services.

"Private security officers are the true first responders and the backbone of our nation's security. They protect 85 percent of our country's critical infrastructure. We strongly support higher standards for security officers, including screening, training, licensing and wages, and we will be a strong voice for the security industry as we advocate for change."

— Joseph Ricci

Executive Director, National Association of Security Companies

Will G4S Be Left Behind?

To their credit, executives at Group 4 Securicor early on made compliance with the Private Security Industry Act a priority. They recognised the advantage early adoption could establish.

Unfortunately, G4S management appears more short-sighted in other locations. Low-paid, untrained, and inexperienced staff, missing and failing equipment, and ineffective control systems have characterised the company's security practice at several high-profile United States government installations under the company's watch, including the headquarters of the United States Department of Homeland Security and at least two United States National Nuclear Security Administration facilities.² Long-term, unsettled labour disputes in the United States and Indonesia, along with extensive litigation with unions and employees over labour rights and employment discrimination, seem to indicate that G4S is spurning opportunities to develop cooperative labour relations that could reduce employee turnover, improve customer service and retention, and expand margins.

Performance lapses and labour conflict could make the company more vulnerable to competition. Recent losses of significant contracts in the U.S. and Indonesia followed public controversy concerning the company's practices. Moreover, the management decisions behind the company's problems appear consistent with a low-road business strategy, which, if pursued, could threaten the company's ability to take advantage of the opportunities created by the growing demand for high-quality security.



The potential flaws of the low-road model are more apparent in relief. Securitas is widely acknowledged as the leading global provider of quality security services. One measure of its superiority is its higher operating margin.¹³ This supremacy is even greater in manned security, where its operating margin in Europe was 7.5% compared to 5.4% for Group 4 Securicor.¹⁴ Securitas achieves its pre-eminence without the labour disputes and ethical lapses that have beset Group 4 Securicor. Recently, Securitas signed a global agreement with global labour organisation Union Network International that aims to maximise safety and service through ethical practices and high-quality jobs. The agreement enhances Securitas's quality-of-service competitive edge.

Hope that Group 4 Securicor might pursue a similar high-road strategy seems misplaced. Evidence collected in this Alternative Annual Report suggests that the company is ignoring the advantages of competing on quality instead of price. It sparks concerns that the present strategy is destined to leave the company chasing the industry trend toward high quality security rather than leading it.

United States—Is Wackenhut Stuck in the Pre-9/11 Past?

United States subsidiary Wackenhut delivered positive results in 2005, but a series of problematic developments at the unit raise the question whether management is prepared to handle the escalating requirements of the post-9/11 security environment.

Alleged practices such as inappropriate hiring, unfair labour practices, inadequate training, insufficient investment in equipment and technology, faulty record keeping, race and sex discrimination, and unsafe working conditions are not new to the U.S. manned security industry, but they have plagued Wackenhut in recent years, as the rest of this section illustrates.

Wackenhut's performance problems are increasingly untenable in a country facing escalating security threats. They are particularly imprudent given the high-road, high-quality, high-security approach embraced by competitors such as Securitas and AlliedBarton, who signed agreements with labour unions to cooperate in raising employment and security standards in the industry. If Wackenhut does not address its operational troubles, it could lose customers and market share.

Wackenhut's difficulties are particularly worrisome because the unit produces approximately 35% of G4S manned guarding revenue and just under 25% of total revenue. It is the G4S flagship for North America. Adding to the concern is the fact that many of the breakdowns have occurred in two of the unit's core businesses: federal government and nuclear power. Wackenhut, which is the largest provider of security services to the federal government, receives 30% of its revenue from federal government contracts. It receives another 12% from the nuclear power industry, where it is, again, the largest security company. Trouble within these two businesses strikes at the company's strongholds.

"Logically, the most sensible strategy for the United States security guard industry would be to opt for sharply higher standards. Rigid screening, four weeks' training, and experience requirements for supervisors would produce better personnel for the good of the employer and wider society as well. Guards would be paid better and enjoy higher status. Employee turnover would decrease and customer service and safety would improve. Career paths would emerge for security guards. Employers would compete on quality and benefit with higher margins. This isn't a dream. European and Asian security guard firms show that higher margins can be achieved than those generally occurring in this country."



— **Dr. Robert D. McCrie,**
Professor of Security Management
John Jay College of Criminal Justice,
City University of New York

Wackenhut Outside the Industry?

Security standards in the United States are improving quickly. Several organisations are striving to improve background screening, guard training, and employee retention, but the level of Wackenhut's commitment to these efforts is unclear. The National Association of Security Companies is pressing state legislatures to implement new guard licensing regulations and improve existing requirements.

More immediately, the Service Employees International Union has joined Securitas, Guardsmark, AlliedBarton, and other security providers, along with their clients, city officials, and public safety experts in an effort to create partnerships between labour, management and government that can address the industry's twin problems of poor training and high staff turnover. In several large cities where SEIU, the industry, and its clients are already working together, real improvements are being made that are stabilising and professionalising the workforce. Wackenhut so far has refused to join this discussion and its continued place at the periphery of this discussion exposes it to the risk of being shut out of major private security markets.

Lost DHS Contract

Wackenhut had the \$9.6 (£5.1)-million-per-year contract to provide security services at the Department of Homeland Security's Washington, D.C., headquarters, but after revelations of extensive site security breaches DHS declined to exercise the option on Wackenhut's contract, which had three additional option years. Instead, it rewrote the contract and solicited bids.

Wackenhut lost the re-bidding to a competitor, along with an expected \$29 (£15.5) million over three years.⁴



Covered by NBC News, the Associated Press, Congressional Quarterly, and dozens of other news outlets, the allegations of Wackenhut's laundry list of failures at DHS represented a public embarrassment for the company.⁵

- Wackenhut supervisors mishandled a suspected anthrax attack at DHS by waiting an hour to evacuate the building;
- Wackenhut did not provide guards with radios, batons, or pepper spray, leaving them few options beyond the lethal force of their handguns;
- Wackenhut left vehicle entrances to the DHS complex lightly guarded and vulnerable to car/truck bombs;
- Wackenhut did not train guards to identify vehicles ineligible for entrance to the DHS complex;
- Wackenhut replaced chemical-sniffing dogs with unreliable equipment.

After Wackenhut allegedly ignored or threatened them with retaliation, the officers brought their concerns about security to SEIU. The union notified United States Senators Byron Dorgan and Ron Wyden, who requested the DHS Inspector General conduct an investigation of the agency's own security.

Army Contracts Not Renewed

Wackenhut performs security services at Army and Army National Guard bases through subcontracts with Alutiq Security and Technology, an Alaska Native Corporation that received this work through controversial no-bid contracts. In April 2006, following critical reports of lax security practices at army bases guarded by Wackenhut, the United States Government Accountability Office, the independent investigative arm of the United States Congress, reported numerous problems with the Army's contract award process and with the operation of contract security providers, including Wackenhut.

As a result, the Army ordered the immediate re-solicitation of all existing contracts through a competitive bidding process, including the estimated \$96 (£51.3)-million-per-year contract with Alutiq, 49% of which it subcontracted to Wackenhut. The Alutiq contract had two additional option years, meaning Wackenhut could lose \$94 (£50.2) million in future revenue.¹⁰

The GAO investigation took place at the request of senior members of the Armed Services Committee in the U.S. House of Representatives. SEIU had briefed many committee members as well as the GAO investigators, and the GAO report echoed SEIU's September 2005 report, "Homeland Insecurity: How Wackenhut and an Alaska Native Corporation May Be Compromising Security at U.S. Army Bases," which described the concerns of security officers working for Alutiq and Wackenhut at several U.S. Army bases.

Nuclear Security Contracts at Risk

Wackenhut has a virtual monopoly on security services at the United States Department of Energy. In fiscal year 2005 it was eligible to receive nearly fifteen times more federal funds than its nearest competitor, the only other security company among the DOE's prime contractors.¹¹ These contracts face at least two types of risk. First, members of Congress and agency authorities could come to see Wackenhut's monopoly as a fiscal and security problem. Without competition, the DOE cannot be sure it is getting the best price or the best security, especially given the tendency for monopolies to become lax. Wackenhut's performance problems only magnify this concern, at a moment when DOE is undergoing a substantial review of its security posture.¹² Second, the company's performance problems may have contributed to delayed renewals on several large contracts and drawn Congressional scrutiny.

Wackenhut recently won renewal of its contract at the DOE's Nevada Test Site, now worth \$386 (£206.3) million, including an initial three-year period and two one-year option periods. The DOE made the award despite findings from its own Inspector General that Wackenhut:

- "Systematically" violated weapons inventory and handling policies;
- Increased overtime by 39% and "suspended or reduced training and performance testing to ensure that protective force personnel were available for critical duties;"
- Excluded or modified prescribed training techniques for vehicle assaults.

The DOE took more than two years to renew the Nevada Test Site contract, which Wackenhut has held since 1965. It has also delayed the award of new contracts for two nuclear facilities in Tennessee, which are currently out to bid: the Oak Ridge National Laboratory and the Y-12 nuclear weapons plant at Oak Ridge. The two new contracts will be worth approximately \$100 (£53.4) million annually.¹³ Wackenhut might face headwind at Oak Ridge considering it faces a "law enforcement investigation" concerning falsification of training records and two race discrimination lawsuits.¹⁴

Imperiled Miami-Dade Transit Contract

Eye On Wackenht.com

Brought to you by the Service Employees International Union, which is independent of the Wackenht Corporation
1313 K Street, NW, Washington, DC 20004 email info@eyeonwackenht.org

Overbilling and Empty Posts on \$89 million Wackenht Transit Contract Under Investigation; Top Administrators Removed Pending Outcome

Wackenht's contract to guard the Miami-Dade transit system—worth \$89 million over 5 years—is being investigated by the county Auditor who has cited payroll records and company log books in response to whistleblowers' complaints of overbilling and foulsmanship involving guards and punch-in times.

According to a report in the *Miami Herald*, a senior MDT official has ordered the removal of Wackenht's top two administrators due to the conduct pending the investigation's outcome.

Whistleblowers also report their punch-in times are often rejected or work up to 7 days a week and up to 20 hours straight, for in excess of the contracted limit of 13 hours per weekday.

The overbilling apparently has cost Miami-Dade County taxpayers up to \$4.5 million a year.

The allegations are associated in depositions by Wackenht employees, including supervisors, arising from a group of lawsuits filed in 2005.

For more information, please visit www.EyeOnWackenht.com

Editorial page editor
2004

Wackenht guards the Miami-Dade Transit system under a contract worth \$89.5 (£47.8) million over 5 years.¹⁰ In September 2005, after whistleblower complaints of alleged overbilling and alleged fraud by the company, the Miami-Dade County Auditor launched an investigation and seized the company's payroll records and logbooks. The transit authority ordered the removal of Wackenht's top two administrators on the contract pending the investigation's outcome. *The Miami Herald* reported allegations that an internal Wackenht memo shows that the company was aware of scheduling and billing discrepancies in 1999, which reportedly cost the county up to \$4.5 (£2.4) million per year.¹¹

Whistleblowers, including current and former guards and supervisors, insist that Wackenht supervisors asked guards to work up to 7 days a week, to work up to 20 hours at a time, and to sign false time sheets. They say the company faces "a chronic scramble" to fill posts that have remained open for years. The company denies the allegations.¹²

Litigation I: Discrimination

Wackenht faces at least 12 employee-initiated discrimination lawsuits, including a case brought by the United States Equal Employment Opportunity Commission, which have the potential to damage the company's ability to retain workers, blemish its reputation with customers, and hurt its bottom line. Five of the suits allege race discrimination, one alleges sex discrimination, two allege race and sex discrimination, and three allege other civil rights violations. Many of them also allege retaliation against complainants.

On April 6, 2006, a jury found against Wackenht and awarded plaintiff Lisa Lulaj \$200,000 (£107,000) in damages. The jury found that Wackenht discriminated against Lulaj on the basis of her sex when it denied her promotion to supervisor after she advised her superiors of her pregnancy. The company told her she should consider a lesser position due to her "condition," assigned her duties and responsibilities to a non-pregnant employee, and gave that employee a promotion. The verdict is currently being challenged on a defendant's motion.¹³

On March 15, 2006, judgment was entered, pursuant to an offer of judgment by Wackenht, in favor of Karen Franklin in the amount of \$75,000 (£40,000) in a suit she filed against Wackenht for gender discrimination, racial discrimination, hostile work environment, retaliation, and disability discrimination.¹⁴

Discrimination Lawsuits Against Wackenhut

Case	Case Number	Date Filed	Federal Court	Cause of Action
Alexander et al. v. Lockheed Martin Energy Systems, Inc.*	3:06-cv-00047	2/2/2006	Eastern District of Tennessee	Race discrimination
Arwine et al. v. Lockheed Martin Energy Systems, Inc.*	3:06-cv-00045	2/2/2006	Eastern District of Tennessee	Race discrimination
Clark et al. v. Lockheed Martin Energy Systems, Inc.*	3:06-cv-00046	2/2/2006	Eastern District of Tennessee	Race discrimination
Granberry v. Alutiiq Security and Technology*	5:06-cv-00532-VEH	3/17/2006	Northern District of Alabama	Race and sex discrimination and retaliation
Harris v. Wackenhut Services, Inc.	1:04-cv-02132-R BW-DAR	12/9/2004	District of Columbia	Race discrimination and retaliation
O'Neal et al. v. Wackenhut Services Inc. and Wackenhut Corporation	3:03-CV-397	8/1/2003	Eastern District of Tennessee	Race discrimination
Patterson v. Hinds County†	3:2004cv00128	2/23/2004	Southern District of Mississippi	Civil rights violations
Tobin v. Bodman et al.#	1:05-cv-00139-DHB	8/22/2005	South Carolina, Aiken Division	Civil rights violations
Trujillo v. Group 4 Falck	2:2002cv00162	2/26/2002	Utah	Employment discrimination and retaliation
U.S. Equal Employment Opportunity Commission v. Wackenhut Puerto Rico, Inc.	04-2035 SEC	9/29/2004	Puerto Rico	Sex discrimination
Webb-Brown v. Wackenhut Corp. et al.	2:05-cv-04751-HB	9/6/2005	Eastern District of Pennsylvania	Race and sex discrimination and retaliation
Young v. Wackenhut	1:2005cv00619	9/26/2005	District of Hawaii	Civil rights, job discrimination

*Wackenhut named as a defendant

†Wackenhut and Wackenhut Services named as codefendants

#Wackenhut Services named as defendant

Source: PACER, accessed 20 May 2006.

The United States Equal Employment Opportunity Commission has brought an action in United States District Court in Puerto Rico under Title VII of the Civil Rights Act to correct alleged unlawful employment practices on the basis of sex and retaliation, and to provide appropriate relief to Catalina Lopez Vasquez who was allegedly adversely affected by such practices. Wackenhut has denied the allegations and is defending the action.^{*}

Wackenhut is the defendant in two class action race discrimination lawsuits at the Department of Energy's nuclear facilities in Oak Ridge, Tennessee. Plaintiffs allege "continuing systemic racial discrimination in employment through discriminatory selection, discriminatory job assignments and promotion procedures, discriminatory terms and conditions of employment, and the extensive perpetuation of a hostile work environment"[†] and discriminatory hiring.[‡] Wackenhut has denied the allegations and is defending both actions.

An African-American senior manager, Edward Harris, has sued Wackenhut for race discrimination. A former Air Force Lt. Colonel, Harris alleges inadequate supplies and facilities for African Americans, and that he was both the recipient of and witness to racist insults from top managers, including Wackenhut Services, Inc. CEO, President, and Senior Vice Presidents.[‡] Wackenhut has denied the allegations and is defending the action.

Litigation II: Labour Rights

Wackenhut's involvement in employment law battles (irrespective of their outcome—and several have been lost to date) suggest the company might be spending too much money and management time fighting employment law battles, rather than seeking to work with its employees to improve their commitment to safety and customer service.

Group 4 Securicor has proclaimed the strength of its relationship with organised labour in the US, emphasising its collective bargaining agreements with "specialised" unions that organise only among security officers. But two of the largest "specialised" unions—the United Government Security Officers of America (UGSOA) and the International Union of Security, Police, and Fire Professionals of America (SPFPA) have been involved in extensive litigation with Wackenhut over company behaviour inconsistent with its claim to "build relationships on the basis of trust and respect." We previously reported on four such cases; in the year under review, each was resolved unfavourably for Wackenhut.

In an Oregon case, UGSOA successfully sued in federal court to enforce an arbitrator's award. Federal judges in New Jersey and the District of Columbia also ruled against Wackenhut, dismissing its applications to vacate UGSOA arbitration awards.²² UGSOA's lawyer in the New Jersey case described Wackenhut's action as the "all too familiar scenario of a company... mak[ing] an economic calculation that it is cheaper to hire a Virginia lawyer to raise groundless challenges to the Arbitrator's decision than to comply with the Award."²³

In September 2004, a National Labor Relations Board (NLRB) administrative law judge found that Wackenhut had acted unlawfully by eliminating a job classification at the Turkey Point nuclear power plant in Florida, because a majority of the affected employees had voted in favour of union representation with SPFPA. Wackenhut refused to accept the decision and sought to have it overturned, but in August 2005 the NLRB reviewed the judge's decision and issued a finding in favor of the affected guards and SPFPA.

In addition to these four cases involving UGSOA and SPFPA, Wackenhut lost an arbitration case involving SEIU Local 1. A Joint Arbitration Board (JAB), established under collective bargaining agreements to which Wackenhut and SEIU Local 1 were parties, upheld SEIU after it filed a grievance protesting Wackenhut's failure to pay area standard wages and benefits to its officers at AT&T buildings in Illinois. The union filed suit in federal court after Wackenhut neither complied with the decision nor filed suit to vacate it, and in March 2006 the judge ordered Wackenhut to comply with and abide by the JAB's decision. Local 1 estimates that Wackenhut owes more than \$230,000 (£123,000) in back wages and health insurance and pension contributions.

These labour rights cases take on added significance in the context of G4S's labour relations outside the United States, particularly in Indonesia (described in a following section). In the United States and Indonesia, G4S has chosen not to work with unions to solve problems. This pattern appears to undermine management's devotion to its stated labour rights policies and casts doubt on its ability to recognise the important connection between amicable labour relations and quality customer service.

Which Road?

The gravity, geographical extent, and number of problems at Wackenhut hint at a pattern of inadequate management oversight. The performance troubles—such as incorrect weapons handling, improper threat response, and unreliable equipment—suggest the possibility that Wackenhut has not committed itself to improve the quality of its service to meet the demands of the more perilous post-9/11 security environment. Combined with allegations of race and sex discrimination, labour rights violations, and the company's refusal to participate in market-wide agreements, they justify questions about the company's willingness to implement the training, employee benefits, and management procedures that could lower overall hiring costs, increase employee retention, enhance customer security, boost customer loyalty, and possibly expand margins.

United Kingdom— Embarrassments at Home?

Group 4 Securicor's performance problems extend beyond the United States. In its home market of the UK, trouble besets the company's offender monitoring, immigration centre, and manned guarding units. The most obvious manifestation of the difficulties was a 4% decline in revenue for UK guarding, the second largest unit within the group.²⁹

Tagging

In January and February 2006, newspapers revealed a series of technology and systems failures at the G4S Justice Services unit responsible for offender monitoring in three regions of the United Kingdom. Problems included tag equipment malfunctions, failure to tag offenders in timely fashion, and repeated failure to report curfew breaches quickly. As a result of these problems, hundreds of offenders violated their curfew without penalty and several violent offenders went missing, sometimes for weeks at a time.³⁰

Under questioning from Members of Parliament, the Managing Director of G4S Justice Services, David Taylor-Smith, said that the company paid £100,000 worth of penalties for failing to meet elements of its offender monitoring service level agreements in 2005-2006. He also confirmed that G4S Justice Services had failed to meet service levels monitored by the Home Office on 10% of occasions.³¹

Group 4 Securicor receives approximately £36 million per year to monitor offenders in the UK.³² Failure to improve performance would therefore appear to put that revenue in jeopardy.

Detention Centres

Group 4 Securicor runs most of the UK's short-term holding facilities for the government's Immigration and Nationality Directorate. After a surprise visit to three detention facilities run by G4S, HM Chief Inspector of Prisons Anne Owers found that G4S:

- Held detainees in facilities described by staff as comparable to "dog kennels";
- Put men and women in the same holding cells;
- Had no appropriate child protection measures in place;
- Compromised safety by providing inadequate information to detention personnel;
- Did not perform criminal background checks on staff in contact with children before hiring them.³³

Reports such as this have the potential to lead the government to reduce its outsourcing or revoke Group 4 Securicor's contract.

Weak Results

As noted, the UK manned security business shrank by 4% in 2005. Along with weak top-line growth in Scandinavia, poor UK results kept European manned security organic growth to 2.5%. By comparison, Securitas grew its manned security business in Europe twice as fast, at 5%. Driving the UK sales decline was an increase in Group 4 Securicor's customer termination rate to 15% in 2005 from 12% in 2004. One cause was two lost contracts, at supermarket giant Safeway and a £6 million contract with energy supplier Centrica.³⁴

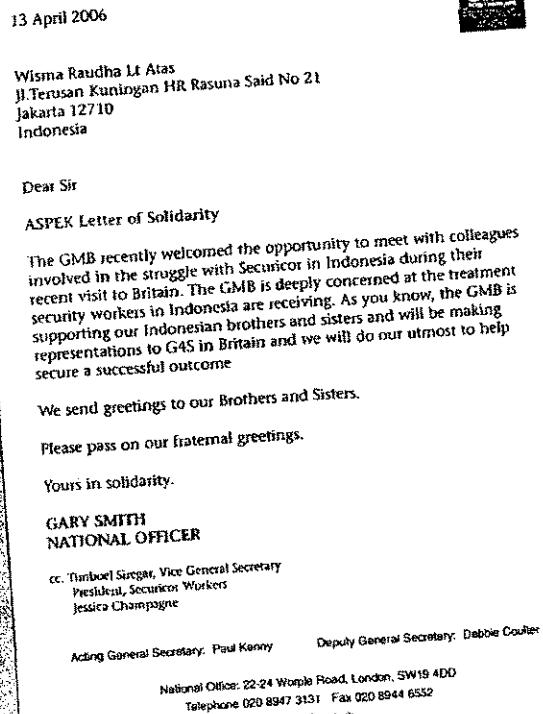
Is Indonesia a New-Market Template?

New markets represent an important source of rapid growth for all multinationals, and no less so for Group 4 Securicor. But that growth has suffered a setback in Indonesia, where a labour dispute has raged for more than a year. A recent Indonesian Supreme Court ruling against the company could bring the dispute to an end, but many questions remain. Why did G4S choose to fight a losing battle? Why did it allow a dispute with several hundred workers escalate to the point where international labour unions with millions of members became involved? Why has the company taken so long to settle the conflict and what price is it paying for dragging its feet? Will the company abide by the Supreme Court decision, or dig itself deeper into a hole? Where else is the company making the same mistakes?

The dispute began following the 2004 merger that created Group 4 Securicor in its current form, when the Indonesian subsidiary PT Securicor Indonesia announced that its security guards would be transferred to Group 4 Falck, a separate company.¹ Following a period of uncertainty, in April 2005, about 500 security guards engaged in a legal strike to demand clarity from the company over whether they would remain permanent employees with the same rights. If the terms of their employment were to change, they were entitled to severance pay under Indonesian law.

Rather than pay severance or guarantee the workers that their terms of employment would remain the same, the company fired 238 striking workers in Jakarta and a further 24 in Surabaya.²

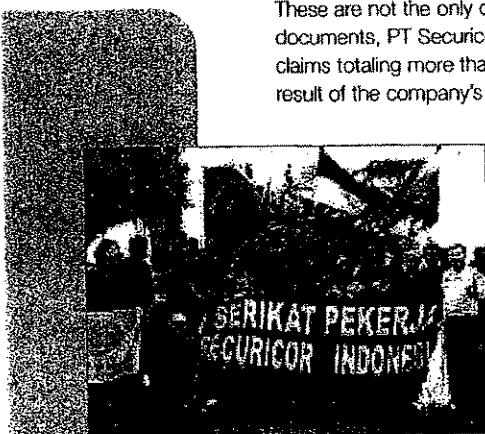
Three times in succession, Indonesian authorities ruled against the company, demanding it reinstate the workers and pay them back wages.³ PT Securicor paid the workers some back wages, approximately a fifth of the total currently owed, but refused to reinstate them or make further payments, and it appealed to the country's Supreme Court.⁴ On May 22, 2006, the striking officers' union representatives and their attorney reported that the Supreme Court upheld the lower courts' decisions.⁵ The ruling could bring the conflict to an end, if the company abides by it. Nonetheless, the costs to G4S appear to have been high and its decision-making questionable.



Mounting Costs

Under Indonesian law, companies must pay workers their wages as long as an industrial dispute continues, regardless of the legal outcome.⁶ Thus, even if the Supreme Court had ruled in its favor on the legality of the workers' termination, PT Securicor is responsible for the workers' back wages, which are now more than 2.3 billion Rupiah, or £145,546.⁷

These are not the only costs of the company's refusal to settle the dispute. In court documents, PT Securicor Indonesia has said that its clients have submitted compensation claims totaling more than five billion Rupiah, or £315,616, due to losses they suffered as a result of the company's failure to discharge its duties under its contracts.²⁸



The company has also noted damage to its reputation from the strike, which could reduce its ability to retain existing clients and attract new customers.²⁹ In a letter to employees, Chris Wright, President Director of PT Securicor Indonesia, wrote that, as a result of this case, "the company has had to spend a great deal of extra money to anticipate security and operational problems, which has indirectly impacted and disrupted previously budgeted plans."³⁰ The company has since lost at least three manned guarding contracts—Nestle, Mandarin Oriental Jakarta Hotel, and InterContinental MidPlaza Jakarta Hotel—and four cash services contracts covering 38 locations, plus guarding contracts have been cut.³¹

Reverberations

The dispute in Indonesia raises many issues, including compliance with local legal rulings and the company's reluctance to deal with labour relations matters on their merits. There is no publicly apparent reason for PT Securicor to delay settlement, a decision that risks the company's reputation with Asian customers, wastes money, and has become a flashpoint for global labour unions already critical of G4S. The union cause received a boost on 25 April 2006—exactly a year after the strike began—when workers' representatives from around the world addressed a well-attended demonstration in Jakarta.

The dispute has reverberated back to the United Kingdom. The GMB, which recently signed a total recognition agreement with G4S, has taken up the cause of its Indonesian co-workers. As GMB representative Eddie Parker told *The Observer* newspaper, "We want to make sure the people we're working with are treating the people they work with elsewhere fairly and properly. I'm going to report back that unless they resolve this crisis here, I don't believe we should be supporting their tenders for any [London] Olympic contracts."³²

With the strike now over one year in length, its financial toll nearing £500,000, and the company losing three times in Indonesian courts, it continues to reflect poorly on Group 4 Securicor's local management and on group management in London for failing to take control of the situation. In the context of Wackenhut's actual and alleged labour violations and discrimination litigation in the United States, the dispute might leave investors wondering if management has an anti-union attitude that conflicts with the company's stated policies and its best interests. Investors might also wonder why the company has ignored the option of negotiation, why its managers endure such reputational harm, and why they may be placing employee and customer satisfaction so low on the company's agenda.



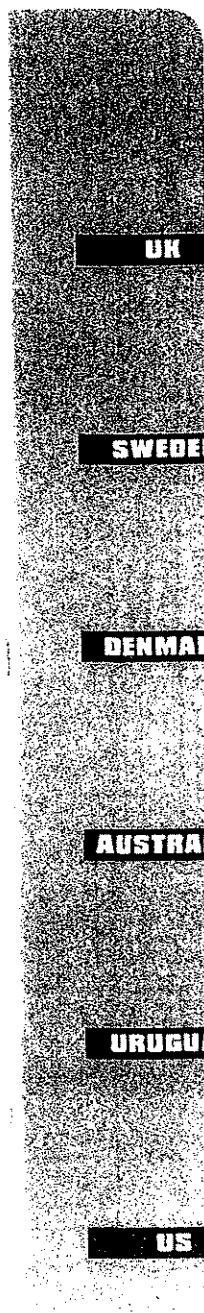
GMB's Eddie Parker visiting the home of Securicor Indonesia officer on strike, Yachya pictured with his wife and daughter.

"...unless they resolve this crisis here, I don't believe we should be supporting their tenders for any [London] Olympic contracts."³³

—Eddie Parker

GMB representative, *The Observer*

Global Concern

**UK**

Indonesia is not the only place Group 4 Securicor has labour troubles. It has clashed with workers in India, Kenya, South Africa, and the United States. These problems have prompted UNI, the global labour federation that includes unions representing property services workers, to announce an international focus on Group 4 Securicor. Continued labour problems can be costly, because unhappy, untrained, and unprepared workers result in poor performance and lost contracts.

"The GMB is deeply concerned at the treatment security workers in Indonesia are receiving. As you know, the GMB is supporting our Indonesian brothers and sisters and will be making representations to G4S in Britain and we will do our utmost to help secure a successful outcome."

—**Gary Smith**
National Officer, GMB

SWEDEN

"The Swedish Transport Federation is very concerned about the recent trend in labour relations at Group 4 Securicor. We have had a very positive experience reaching a global agreement with Securitas. We, and other unions in UNI, will now turn our attention to a similar agreement with Group 4. Unfortunately, Group 4 management seems more interested in fighting than working with its employees. We expect this to be a difficult process."

—**Lars Lindgren**
International Secretary, Swedish Transport Workers Union

DENMARK

"For years, the Danish labour movement enjoyed good relations with Group 4. Over the past few years, we have watched with concern as labour disputes develop in more and more countries. If this trend continues, it is a threat to the future of the company. We call on Group 4 management to develop positive relations with all of its unions everywhere."

—**Karsten Hansen**
President, Dansk Funktionærforbund Serviceforbundet

AUSTRALIA

"We frankly cannot believe that a major corporation like yours should be prepared to ignore the rights of workers like [those on strike in Indonesia]. Your failure to meet their demands is particularly serious in a country with an extremely limited social security system and with such high levels of unemployment."

—**Jeff Lawrence**
National Secretary, Liquor, Hospitality and Miscellaneous Union (LHMU)

URUGUAY

"On behalf of the thousands of security workers in our country, the millions of people and multi-million dollar properties we protect, we strongly urge G4S to work cooperatively with its employees here in Uruguay and UNI to raise standards in the industry—just as Securitas is doing now."

—**Hector Castallano**
General Secretary, Federacion Uruguaya de Empleados de Comercio e Industria (FUECI)

US

"As security companies like Allied, Securitas and others join the cooperative effort to upgrade global security standards, G4S' exploitation of workers and hostility toward employment legislation cast the company as an outlier in a post-9/11 world."

—**Stephen Lerner**
Property Services Director, Service Employees International Union (SEIU)

Financial Analysis

Group 4 Securicor offered a rosy picture of its financial health on March 13, 2006, when it released its preliminary results for 2005. It was "a very good year," CEO Nick Buckles told analysts.¹² Later, he told an interviewer "Our organic growth will be at least 6% annually, and we aim to create similar growth through acquisitions. That's why we are talking of at least double-digit annual growth rates in the next five years."¹³ A cursory glance at the headline numbers—7% organic sales growth, 40 basis points of margin improvement, and a 21% increase in the dividend—supports Buckles' contention.

A closer look at the company's financial and operational performance, however, provides numerous reasons for a degree of skepticism about Group 4 Securicor's growth prospects. For example, on a pro forma basis, G4S failed to reach its 5% organic growth target in its European manned security business, which grew only 2.5%. It also failed to reach its 8% organic growth target for its cash services business, which grew just 6.2%.¹⁴ Given the barriers the company faces in reaching its organic growth targets, the pressure on Buckles to find growth through acquisitions is likely to grow, making it more likely the company will overpay.

UK Manned Security

UK manned security revenue shrank in 2005, in large part because the unit's customer retention rate fell to 85% from 88%.¹⁵ The loss of 15% of revenue every year means the company must find new customers totaling 24% of remaining revenue if it is to meet its 5% organic revenue growth target for the unit.¹⁶ That provides a strong incentive to improve customer renewal rates. But winning new customers and retaining old ones will be more difficult given the embarrassing public revelations in January and February of extensive failures in offender monitoring and immigration detention. This comes after a tough year for Justice Services, during which margins shrank and the company probably failed to reach its 15% organic growth target.¹⁷ The failures threaten Group 4 Securicor's current £36-million-per annum offender monitoring contract and increase the likelihood that the government will reduce its use of contract security outsourcing.

Difficulties in the UK contributed to poor results in Europe, where manned security PBITA margin shrank by 30 basis points to 5.4%, well below the company's target of 6.0%.

Global Labour Relations

Results were generally positive in New Markets. Manned security organic growth was a strong 19.3% and PBITA margin was up 50 basis points to 7.2%. Both numbers easily beat targets of 10% and 6%, respectively. The major question is whether hostile labour relations in a number of countries will become a barrier to continued rapid growth. Demand for quality security is high outside Europe and North America. Open labour disputes could affect whether clients—especially government units, international organisations, and global companies—see G4S as a best-practice security company. That may threaten the company's long-term growth.

US Manned Security

North American manned security represents 25% of total Group 4 Securicor revenue, and it is a key source of growth for the company. Wackenhut dominates the division, so its performance is crucial for the company as a whole. For 2005, Wackenhut's headline numbers were impressive: 9% organic revenue growth (versus target of 5%) and profit before interest, taxes, and amortisation (PBITA) margin improvement of at least 30 basis points to at least

6.0% (versus target of 6%).⁵⁰ Yet, below the surface, mounting evidence suggests that a replicating pattern of performance problems at the company's Federal contract security unit could be beginning to affect the company's top line.

As noted above, the US Department of Homeland Security declined to exercise the option on Wackenhut's \$9.6 (£5.1) million-per-year contract to secure the agency's headquarters in Washington, D.C., which had three remaining option years worth an estimated \$29 (£15.5) million. Wackenhut lost the contract in the ensuing competition. Likewise, Wackenhut's hold on multi-million dollar contracts at the Department of Energy as well as its subcontracts with Alaska Native Corporation Alutiq Security and Technology are also imperiled. These contracts represent annual revenues of \$147 (£78.6) million, about 9.2% of Wackenhut's approximately \$1.6 billion (£855 million) in revenues.⁵¹ Historically, Wackenhut has had an extremely high customer retention rate, providing a strong base for its exceptional organic growth. The loss of any or all of these contracts would reduce the renewal rate and may retard the unit's growth.

Valuation

Group 4 Securicor shares traded at 175p as of May 18, 2006 or 14 times the average 2006 analyst earnings estimate of 12.54p per share and 12.5 times the 2007 estimate of 14.01p per share.⁵² This multiple represents a slight discount to Securitas, the acknowledged industry leader. The estimates assume 13% earnings growth in 2006 and 12% in 2007. With organic revenue growth in the range of 6%, the higher earnings growth rate has to come from a combination of margin improvement, acquisitions, and finance. Should organic revenue growth slow due to loss of customers in the United States or the United Kingdom, boosting margins will become even harder, especially if price competition increases. Margin compression and

slowing growth would intensify the imperative to grow through acquisitions, increasing the chance the company will overpay. Should the company maintain its purchase discipline, it could miss earnings estimates, risking a decline in its share price. The only way out of this double bind is the high road of quality security and customer satisfaction.

G4S vs. Competitors: Margin Comparison (2005)⁵³

	G4S	Securitas	Rentokil	AlliedBarton
Manned Security	5.9%	6.4%	3.9%	6.6%
Europe	5.4%	7.6%		
North America	6.0%	5.0%		6.6%
Security Systems	8.2%	12.5%		
Cash Services	8.9%	5.9%		
Total	6.2%	6.5%	N/M	6.6%

Group 4 Securicor margins trail those of its competitors overall and in key manned security areas.

G4S Organic Growth Target Performance⁵⁴

	(2005)	Target
Manned Security Europe	2.5%	5.0%
Manned Security North America	8.5%	5.0%
Security Systems	8.0%	8.0%
Cash Services	6.2%	8.0%
Total	7.0%	6.0%

Group 4 Securicor is heavily dependent on its large U.S. Wackenhut unit to meet its overall organic growth target. Yet this unit has had performance and publicity problems.

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To: Analysts and Portfolio Managers following Group 4 Securicor

From: Stephen Lerner, Director, Property Services Division

Date: February 10, 2006

Re: On-going Wackenhut problems a potential threat to Group 4 Securicor success

I am writing to bring to your attention new developments that reinforce our serious concerns about current operating weaknesses and future performance at Wackenhut, the U.S. subsidiary of Group 4 Securicor. SEIU, as the largest union in the U.S. security industry, has been closely following an evolving set of operational issues at Wackenhut. Recent developments reinforce our perception that Wackenhut's internal controls, managerial practices and ethical standards could create business risks for its parent company.

Wackenhut Investigated for Alleged Fraud and Overbilling

Wackenhut's 5-year \$89 million contract to guard the Miami-Dade Transit (MDT) system is being investigated by the County Auditor concerning allegations of overbilling and fraudulent reporting of guards' hours. (Miami Herald, Jan. 8 2006, attached.) The Auditor has seized payroll records and company log books. The MDT has ordered the removal of Wackenhut's top two administrators on the contract pending the investigation's outcome. Whistleblowers also report that guards — who are armed — are often asked to work up to 7 days a week and up to 20 hours straight. If shown, the overbilling may have cost Miami-Dade County up to \$4.5 million a year (Miami Herald, Sept. 28 2005, attached). The company has denied the allegations.

The issues raised in connection to the MDT contract are in addition to serious security lapses and other alarming practices affecting Wackenhut contracts at nuclear power plants, military bases and transportation companies. For example:

- **DOE Oak Ridge Weapons Site.** A February 2006 report from the Department of Energy's Inspector General says that security costs in Oak Ridge nearly doubled over a five-year period, in part because of high overtime expenses, and federal auditors said the contractor — Wackenhut Services — may have profited from the situation.
- **Three Mile Island.** A recently exposed internal memo written by management at the Three Mile Island nuclear power plant allegedly requested senior officers to stop instructing new hires on how to sleep on the job. A Patriot-News report (Jan. 29, 2006, attached) raises concerns that overscheduling and fatigue at TMI could affect plant security..
- **Nevada Test Site.** Rep. Christopher Shays, a key House Republican who is chairman of the government reform subcommittee with oversight of national security, expressed concerns about security at the Nevada Test Site and suggested the Energy Department think twice about extending Wackenhut's contract..

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Implications for Group 4 Securicor. It would be a serious problem for Group 4 Securicor if Wackenhut's performance issues impair the unit's ongoing growth. According to Group 4 Securicor's H1 financial presentation, the North American market constituted 25.7% of the company's H1 turnover. Because North American profit margins (PBITA) were lower than in the company's European and emerging markets, we are concerned that pressure to improve margins while maintaining growth may challenge the company's ability to improve training, scheduling, internal financial controls, and other managerial practices.

Key government contracts for Wackenhut are currently under review, and decisions on some of these contracts may be imminent. SEIU has been approached by a number of Wackenhut employees who have raised serious concerns about the company's performance on federal contracts, and we have referred these to the appropriate lawmakers and authorities. Given these serious issues, we would not be surprised if the continuing viability of one or more of Wackenhut's federal contracts are questioned.

SEIU continues to chronicle these issues on the website, eyewackenut.com. For more information, contact: Steven Weingarten, Director of Public Equities, 212-947-1944, ext. 23.

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